Rural areas: Current situation and future challenges

Hervé Guyomard, INRA

Europe’s rural areas in action - Facing the challenges of tomorrow
Limassol, Cyprus, October 16-17, 2008
Rural areas: Current situation and future challenges

Hervé Guyomard, INRA France

(Francis Aubert, ENESAD France; Fabrice Levert and Bertrand Schmitt, INRA France)
Introduction
Structure of the presentation

> What are rural areas?

> A brief history of EU rural development policy

> EU rural development policy at level of challenges and ambitions?
What are rural areas?
What are rural areas?

Defining rural areas

The main or the most homogenous criterion used to define the frontier between rural and urban areas is based on population density

OECD methodology

- 1994
  - At local community level (NUTS 5), units are classified as rural when their population density is below 150 inhabitants per square kilometer
  - At regional level (NUTS 3 and NUTS 2), regions are classified in one of the three categories
    - **Predominantly rural regions**: more than 50% of the population is living in rural communities
    - **Intermediate regions (significantly rural regions)**: from 50 to 15% of the population is living in rural communities
    - **Predominantly urban regions**: less than 15% of the population is living in rural communities
What are rural areas?

Defining rural areas

OECD methodology

- 2005
  - At regional level, for the EU
    - If there is an urban centre > 200 000 inhabitants representing no less than 25% of the regional population in a predominantly rural region, it is re-classified as intermediate
    - If there is an urban centre > 500 000 inhabitants representing no less than 25% of the regional population in an intermediate region, it is re-classified as predominantly urban

- OECD definition
  - Definition internationally recognised
  - Merit of simplicity
  - Excessively simplified to accurately reflect the rural character of areas notably in densely populated regions
  - Rural areas have their own characteristics, their own strenghts, their own weaknesses, their own needs
What are rural areas?

**Rural areas: very important at EU-27 level, but very different importances between Member States**

<table>
<thead>
<tr>
<th>EU27, 2004, NUTS3, %</th>
<th>PR&amp;I regions</th>
<th>PR regions</th>
<th>I regions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Territory</td>
<td>91</td>
<td>53</td>
<td>38</td>
</tr>
<tr>
<td>Population</td>
<td>57</td>
<td>19</td>
<td>38</td>
</tr>
<tr>
<td>Gross value added</td>
<td>43</td>
<td>12</td>
<td>31</td>
</tr>
<tr>
<td>Employment</td>
<td>55</td>
<td>19</td>
<td>36</td>
</tr>
</tbody>
</table>

Rural areas are particularly important in terms of territory: 91% for PR&I regions, 53% for PR regions.

Even if economic activity is increasingly concentrated in more urban areas, rural areas still generate 43% of GVA and provide 55% of employment.

A lower economic importance in PR areas: while they represent 53% of territory (38% for I regions), they generate 12% of GVA (31% for I regions) and provide 19% of employment (36% for I regions).
**What are rural areas?**

**Rural areas: very important at EU-27 level, but very different importances between Member States**

<table>
<thead>
<tr>
<th>2004, NUTS3, %</th>
<th>PR&amp;I regions</th>
<th>PR regions</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>EU15</td>
<td>EU12</td>
</tr>
<tr>
<td>Territory</td>
<td>89</td>
<td>97</td>
</tr>
<tr>
<td>Population</td>
<td>49</td>
<td>83</td>
</tr>
<tr>
<td>GVA</td>
<td>42</td>
<td>70</td>
</tr>
<tr>
<td>Employment</td>
<td>49</td>
<td>77</td>
</tr>
</tbody>
</table>

A higher importance in the new Member States (population, GVA and employment)

Although PR areas represent a lower share of territory in the new Member States (47% versus 55% in EU-15), their importance is twice in terms of population (33% versus 15% in EU-15), GVA (24% versus 12% in EU-15) and employment (28% versus 17 in EU-15)
What are rural areas?

Rural areas: very important at EU-27 level, but very different importances between Member States

Average figures mask significant differences between Member States

• But the geographical breakdown (the size of analysis unit) biases figures and explains in part differences

• Illustration by comparing the designation of rural areas at NUTS2 versus NUTS3 level
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16-17 October 2008, Limassol, Cyprus
From “essentially urban” countries (BE, NL, MT) to “essentially rural” ones (IE, FI, SE, SI) with a continuum where intermediate regions play a crucial role.
Population in PR areas

- 1.3% in the NL and 3.5% in BE
- 2% in UK (where 24% of the territory is PR), 13% in GE (where 36% of the territory is PR) and 13% in ES (where 45% of the territory is PR)
- 50% in SW, 62% in FI and 72% in IE

Source: EC, 2007
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16-17 October 2008, Limassol, Cyprus

GVA in PR&I areas

- 10% in BE and 15% in the NL
- 62% in IE, 70% in FI and SW

Notes:
- no data available for Greece
- the European aggregates are based on the available data

Source: EC, 2007
Employment in PR&I areas

- 12% in BE and 15% in the NL
- 69% in IE and FI, 76% in SW

Notes:
- no data available for Italy, Romania and the United Kingdom
- the European aggregates are based on the available data

Source: EC, 2007
What are rural areas?

Despite this great diversity, some common characteristics and evolution patterns

Four main characteristics

(1) The age structure of the population does not vary significantly between the three types of areas
   • The population of people 65 years old or more is generally (slightly) higher in PR areas
   • The proportion of ‘old’ people in rural areas is generally higher in EU-15 while the proportion of ‘young’ people in rural areas is generally higher in EU-12 (differences in national demography)

(2) An income per habitant 25-30% lower in rural areas
   • The gap between PR and PU areas is more accentuated in EU-12 where the average income is furthermore around 50% lower
   • The average income indicator masks huge disparities as it does not reflect the social structure of rural areas: young people leaving rural areas to find jobs in cities and towns; rich retired people coming from urban areas cohabiting with (poor) retired farmers; etc.
   • The average income indicator should be considered in line with the cost of living, including the cost of housing & transportation costs
What are rural areas?

Despite this great diversity, some common characteristics and evolution patterns

Four main characteristics

(3) Employment / unemployment rates are not significantly different in rural areas relative to urban areas
  - Between 2000 and 2005 the unemployment rate decreased slightly in rural areas while it increased slightly in urban areas

(4) A declining economic importance of the primary sector in rural areas
  - However, agriculture and forestry in EU-27 rural areas still represent 5% of GVA and 13% of employment, both shares being more important in EU-12 (7% of GVA and 20% of employment)
  - Even in rural areas and despite the agricultural decline, the bulk of economic activity is growing and is linked to the sector of services
  - The importance of services in rural areas has continuously increased over the past decades and should continue to increase in the coming years. They are one of the engines of rural development
What are rural areas?

Despite this great diversity, some common characteristics and evolution patterns

Implications

Characteristic (2): Legitimacy of public intervention targeted on rural areas for equity reasons; however
  • Income and cost of living
  • What behind average income?

Characteristic (3): Role of the primary sector in rural development in a context where
  • The economic role of this activity sector is declining (GVA and employment)
  • The number of rural households deriving income from agriculture and forestry is decreasing
What are rural areas?

Despite this great diversity, some common characteristics and evolution patterns

Implications (continued)

But

• Important role of the agricultural sector in the new Member States
• Rural areas cover 90% of the EU’s territory
• Agriculture and forestry are the main land users and play a key role in the management of natural resources in rural areas and in determining the rural landscape

What objectives for EU rural development policy?
A brief history of EU rural development policy
A brief history of EU rural development policy

Toward a more unified EU rural development policy


<table>
<thead>
<tr>
<th>Six objectives including</th>
<th>Definition of objectives</th>
<th>Funds</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Objective 1</td>
<td>- Development and structural adjustment of lagging development regions</td>
<td>- EAGGF (CAP), ERDF (CP), ESF (CP)</td>
</tr>
<tr>
<td>- Objective 5a</td>
<td>- Accelerating adaptation of agricultural structures</td>
<td>- EAGGF (CAP)</td>
</tr>
<tr>
<td>- Objective 5b</td>
<td>- Agricultural structures, development of rural areas</td>
<td>- EAGGF (CAP), ERDF (CP), ESF (CP)</td>
</tr>
</tbody>
</table>

CAP: Common Agricultural Policy; CP: Cohesion Policy

Europe’s rural areas in action: Facing the challenges of tomorrow
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A brief history of EU rural development policy

Toward a more unified EU rural development policy

• The 1996 Cork Conference highlighted the importance of rural areas for the EU and the need to promote their development.

  - It explicitly recognised that agriculture and forestry were no more predominant in EU economies and called for a true rural development policy which should be, notably, multisectoral and based on a territorial approach.

  - To that end, it proposed a 10-point rural development programme (rural preference, integrated approach, diversification, sustainability, subsidiarity, simplification, programming, finance, management, and evaluation and research)

• It is to EC DG Agri that the responsibility of an “autonomous” EU rural development policy was confined, in 1999 in the framework of Agenda 2000 reforms which explicitly state that “a common rural development policy should accompany and complement the other instruments of the CAP”
A brief history of EU rural development policy

Toward a more unified EU rural development policy

The rural development policy as the second pillar of the CAP

- The EU rural development policy 2000-2006
- The EU rural development policy 2007-2013

Simultaneously, evolution of the CP

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16-17 October 2008, Limassol, Cyprus
A brief history of EU rural development policy

Toward a more unified EU rural development policy

• Evolution of EU CP shows that its “rural and agricultural development” components have been progressively suppressed, more specifically transferred to the second pillar of the CAP
  - Suppression of Objective 5a
  - Objective 5b of the 1988-1999 period specifically targeted on development of rural areas included in Objective 2 from 2000
  - Suppression of prior identification of territories (zoning)
  - Etc.

• Simplification and increased consistency of the various EU policies

• These “rural and agricultural development” components are now, at least theoretically, included in the EU rural development policy.
  - However firms or individuals who benefit from measures under “objectives 1 or 2” measures can be located in rural areas
A brief history of EU rural development policy

The EU rural development policy 2007-2013

• **An impressive review exercise**
  - Mid-term evaluation of national rural development programmes 2000-2006 by Member States
  - Synthesis report on this basis by the European Commission
  - Extended Impact Assessment by the European Commission of future rural development policy

• **Salzburg Conference** on rural development in November 2003 (“planting seeds for rural futures - building a policy that can deliver our ambitions”): Identification of priorities needing (increased) consideration

  - **Agriculture and forestry**
    These sectors “continue to play an essential role in shaping the rural landscape and in maintaining viable rural communities. There is a need to help European farmers take up their multifunctional role as custodians of the countryside and market oriented producers in the whole EU, including disadvantaged areas and remote regions.

Europe’s rural areas in action: Facing the challenges of tomorrow

16-17 October 2008, Limassol, Cyprus
A brief history of EU rural development policy

The EU rural development policy 2007-2013

- Agriculture and forestry (continued)
  There is still strong justification for public support for EU rural development policy to facilitate the on-going process of agricultural restructuring, the sustainable development of rural areas and a balanced relationship between the countryside and urban areas."

- Wider rural world
  « The development of rural areas can no longer be based on agriculture alone. Diversification both within and beyond the agricultural sector is indispensable in order to promote viable and sustainable rural communities.”

- Food quality and safety
- Access to public services
- Covering the (whole) EU’s territory
- Cohesion
- Stakeholder participation
- Partnership
- Simplification
A brief history of EU rural development policy

The EU rural development policy 2007-2013

•The CAP reform of June 2003 to be implemented from 2005 onwards has introduced fundamental changes in first pillar instruments (decoupling of the income support policy through the Single Farm Payment instrument, cross-compliance and modulation).

•It also aims at strengthening the rural development policy via the introduction of new measures (to promote quality and animal welfare and help farmers to meet new European standards) and a provision of more EU money thanks to increased modulation (transfer of funds from the first to the second pillar).
The EU rural development policy 2007-2013

The regulation in a word

- **Still a menu of measures** from which Member States can choose and for which they receive EU financial support in the context of (national) integrated rural development programmes

- **Focus on three objectives (axis)**
  
  • **Axis 1 (competitiveness):** improving the competitiveness of agriculture and forestry (focus on human resources, physical capital, quality of agricultural production and products, plus transitional measures)

  • **Axis 2 (environment and land management):** supporting land management and improving the environment (sustainable use of agricultural land, sustainable use of forestry land);
The EU rural development policy 2007-2013

The regulation in a word (continued)

• Axis 3 (economic diversification and quality of life): improving the quality of life and encouraging diversification of economic activities (quality of life, economic diversification, training skills acquisition and animation);

• Plus a transversal / methodological axis dedicated to the LEADER approach (axis)

- Minimum funding for each axis (10 for A1, 25% for A2, 10% for A3, 5% for Leader – 2.5% in new Member States)

- A single Fund: the European Agriculture Fund for Rural Development (EAFRD)

- National implementation through national strategy plans on rural development

- Co-financing defined by axis
## A brief history of EU rural development policy

The EU rural development policy 2007-2013 (a)

<table>
<thead>
<tr>
<th>Objective setting</th>
<th>EU strategy</th>
<th>National strategy</th>
<th>RD programmes</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Axis 1 measures</strong></td>
<td><strong>Human resources:</strong> Vocational training and information actions Young farmers Early retirement Use of farm advisory services Setting up of farm management, relief and advisory and forestry advisory services <strong>Physical capital:</strong> Farm/forestry investments Processing/marketing/co-operation for innovation Agricultural/forestry Infrastructure Restoring agricultural production potential <strong>Quality of agricultural production and products:</strong> Meeting standards temporary support Food quality incentive scheme Food quality promotion <strong>Transitional measures:</strong> Semi-subsistence Setting up producer groups</td>
<td></td>
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</tr>
<tr>
<td>funding share</td>
<td>minimum 10%</td>
<td></td>
<td></td>
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<tr>
<td>EU co-financing rate</td>
<td>max 50/75%*</td>
<td></td>
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<tr>
<td>territorial application</td>
<td>all rural areas</td>
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Europe’s rural areas in action: Facing the challenges of tomorrow

16-17 October 2008, Limassol, Cyprus
A brief history of EU rural development policy

The EU rural development policy 2007-2013 (b)

<table>
<thead>
<tr>
<th>Axis 2 land management</th>
<th>measures</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td><strong>Sustainable use of agricultural land:</strong> Mountain LFA Other areas with handicaps Natura 2000 agricultural areas Agri-environment/animal welfare (compulsory) Support for non-productive investments <strong>Sustainable use of forestry land:</strong> Afforestation (agricultural/non-agricultural land) Agroforestry Natura 2000 forest areas Forest environment Restoring forestry production potential Support for non-productive investments</td>
</tr>
<tr>
<td>baseline (agriculture)</td>
<td>cross compliance</td>
</tr>
<tr>
<td>funding share</td>
<td>minimum 25%</td>
</tr>
<tr>
<td>EU co-financing rate</td>
<td>max 55/80%*</td>
</tr>
<tr>
<td>territorial application</td>
<td>all rural areas</td>
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</tbody>
</table>
A brief history of EU rural development policy

The EU rural development policy 2007-2013 (c)

| Axis 3 wider rural development | measures | Quality of life:  
Basic services for the rural economy and population (setting up and infrastructure)  
Renovation and development of villages  
Protection and conservation of the rural heritage  
Economic diversification:  
Diversification to non-agricultural activities  
Support for micro-enterprises  
Encouragement of tourism activities  
Training skills acquisition and animation:  
Training and information  
Skills acquisition, animation and implementation |
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<tbody>
<tr>
<td></td>
<td>funding share</td>
<td>minimum 10%</td>
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<td>EU co-financing rate</td>
<td>max 50/75%*</td>
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<td></td>
<td>territorial application</td>
<td>all rural areas</td>
</tr>
<tr>
<td>Leader axis</td>
<td>implementation</td>
<td>Leader approach for selected territories within the scope of the 3 thematic axes</td>
</tr>
<tr>
<td></td>
<td>funding share</td>
<td>minimum 5% (2.5% in new member states)</td>
</tr>
<tr>
<td></td>
<td>EU co-financing rate</td>
<td>max 55/80%*</td>
</tr>
<tr>
<td></td>
<td>territorial application</td>
<td>all rural areas, selected territories</td>
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</tbody>
</table>

*The first co-financing rate refers to all regions except Convergence regions, the second co-financing rate is applied in the Convergence regions.
EU rural development policy at level of challenges and ambitions?

Europe’s rural areas in action: Facing the challenges of tomorrow

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According to the EC, the new EU rural policy can be characterised by two words: **continuity and change:**

**Continuity:** still a menu of measures; three thematic axis which to a large extent correspond to the three groups of measures already included in the previous rural development programme; national implementation and co-financing; etc.

**Change?**

More specifically, the main question: Is this new rural development policy at level of challenges faced by rural areas?

**What are these challenges?**
Main challenges faced by rural areas

Challenges

• **Improving local economy growth and competitiveness of all economic activities located in rural areas in a context where**
  
  The economic role of agriculture and forestry is declining, but
  The primary sector still represents a significant share of GVA (5% at EU-27 level) and employment (13% at EU-27 level) in rural areas, and a higher share in the new Member States (7% for GVA and 20% for employment)
  The economic importance of services is increasing but less developed relative to urban areas

• **Increasing income of people living in rural areas in a context where average income per head is 25-30% lower in rural areas relative to towns and cities, but**
  
  Income and cost of living (cost of housing)
  What behind average income figures?
Main challenges faced by rural areas

Challenges

• Increasing quantity, access and quality of public and private services and infrastructures in a context where many people are attracted by the idea of living in rural areas provided that they have access to the same quantity and quality of services and infrastructures
  In that perspective, analysis should also take into account the fact that energy prices should remain at high levels over the next years (transport costs)

• Protecting environment and natural resources in a context where rural areas represent more than 90% of the EU-27 territory
  In that perspective, growing importance of three environmental issues
  - Water management and protection (quantity and quality)
  - Biodiversity protection
  - Climate change (adaptation to climate change and contribution of the primary sector to reduction of GHG emissions)
Main challenges faced by rural areas

Challenges

• Preservation and valorisation of rural areas’ landscapes

• Analysing the potentially positive and negative consequences of development of non-food uses of primary commodities, notably the environmental and territorial impacts of biofuels (first and second generation)
Main challenges faced by rural areas

Interrogation

On this basis, one can be afraid that despite noticeable evolution and progress, the new EU rural development policy is not sufficiently ambitious to take up the formidable challenges rural areas are facing.
Is the new rural development policy at level of ambitions?

Second issue: Are funds available for rural development sufficient?

• Over the period 2007-2013, the enlarged EU-27 countryside rural areas (EU funding only) should benefit from 88.3 billion euros from the second pillar to the CAP (2006 prices), plus ?? from the CP (new Member States)

  European Council of December 2005 for the EU-25: 69.75 billion euros

  + The product of mandatory modulation (4% in 2007, 5% onwards) as well as cotton and tobacco transfers: total of 77.6 billion euros

  + Enlargement to Bulgaria (2.6 billion euros) and Romania (8.0 billion euros): total of 88.3 billion euros (12.6 billion euros per year on average)

  + Co-financing from Member States (60.4 billion euros, 41%): total of 148.7 billion euros (21.2 billion euros per year on average)
Is the new rural development policy at level of ambitions?

First issue: data and information needs

As noted by Hill and Blandford (2008), it is worthwhile to note that it is not straightforward to get a clear picture of spending on rural development, notably because of

- The complex way EU rural areas have been supported through several EU funds and two EU policies (the CAP and the CP) - The situation should improve over the 2007-2013 period
- The coexistence of an EU policy (co-funded by countries) and autonomous national and regional policies targeted on / impacting rural areas
  - Objectives of autonomous national and regional policies?
  - Areas targeted?
  - Complementary / substitutability vis-à-vis EU rural development and its national / regional implementation?
EU rural development policy at level of challenges and ambitions?

Is the new rural development policy at level of ambitions?

Second issue: Are funds available for rural development sufficient?

Enough money for rural development?

• Recall that the initial proposition of the EC was to allocate 88 billion euros from the EAFRD for EU-25

• This question should be addressed by simultaneously considering challenges rural areas are facing and objectives the EU rural development policy is pursuing
Is the new rural development policy at level of ambitions?
Second issue: Are funds available for rural development sufficient?

<table>
<thead>
<tr>
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<tbody>
<tr>
<td>CAP</td>
<td></td>
<td></td>
</tr>
<tr>
<td>First pillar</td>
<td>297</td>
<td>419</td>
</tr>
<tr>
<td>Second pillar</td>
<td>267 (90%)</td>
<td>331 (79%)</td>
</tr>
<tr>
<td></td>
<td>30 (10%)</td>
<td>88 (21%)</td>
</tr>
<tr>
<td>CP</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rural development</td>
<td>213</td>
<td>308</td>
</tr>
<tr>
<td></td>
<td>36 (17%)</td>
<td>around 0 according to Jouen (2007), ?? (cf. rural areas in new Member States)</td>
</tr>
<tr>
<td>Total rural development</td>
<td>66</td>
<td>88 (+ ??)</td>
</tr>
</tbody>
</table>

Source: Adapted from Jouen (2007), Hill and Blandford (2008), EC (various documents); Authors’ calculations

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Is the new rural development policy at level of ambitions?

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Is the new rural development policy at level of ambitions?

Third issue: Is the rural development policy bias towards agriculture justified? excessive?
An EU rural development policy at level of challenges and ambitions?

**Planned spending from EU and national budgets on rural development 2007-2013**

**Pillar II spending within the 975 billion EU-budget for 2007-2013**

- **CAP pillar II**: 9%
  - **Axis 1**: 32% (competitiveness of agriculture and forestry)
  - **Axis 2**: 48% (environment and countryside)
  - **Axis 3**: 12% (rural area quality of life and diversification)
  - **Leader**: 6%
  - **Technical assistance to programming**: 2%

- **All other EU spendings**: 57%

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Is the new rural development policy at level of ambitions?

Third issue: Is the rural development policy bias towards agriculture justified? excessive?

From these figures, it appears that the new EU rural development policy is characterised more by continuity than by change.

The new EU rural development policy remains biased in favour of “agricultural” Axis 2 and Axis 1 to the detriment of “non-agricultural” Axis 3.

• Axis 2: logic of farmers’ compensation for higher costs because of increased environmental constraints or farms located in areas with handicaps
• Axis 1: measures targeted on agriculture competitiveness (modernisation of holdings, adding value to agricultural products)
EU rural development policy at level of challenges and ambitions?

Is the new rural development policy at level of ambitions?

Third issue: Is the rural development policy bias towards agriculture justified? excessive?

The focus on agricultural and forestry issues in rural development may be questionable given the declining importance of agriculture and forestry in economic development of rural areas.

- A literature review (Leon and Surry, 2008) shows that the dragging effects of agricultural and agri-food activity on local (rural) value added, employment and income are between 1.1 and 2.5 (depending on the zone, data, method used, etc.)
  
  When the multiplier equals 1.1, this means that the dragging effect of agricultural and agri-food activity on the local economy is nearly null.

- This issue will be discussed in workshop 4.

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An EU rural development policy at level of challenges and ambitions?

Is the new rural development policy at level of ambitions?

Third issue: Is the rural development policy biased towards agriculture justified? Excessive?

In the same way, the lion’s share of agri-environmental measures (22% or 20 billion euros of the EAFRD envelope) raises the double question of

- The inefficiency / efficiency of agri-environmental measures as they are currently applied / implemented in Member States (see, for example, Dupraz, 2007)

- The environmental objectives targeted through these measures (hierarchy of priorities, reduction of negative externalities and provision of positive externalities / public goods, etc.)

- This issue will be discussed in workshops 2 and 3
Fourth issue: Evolution of the CAP, first and second pillar

• Objectives of the CAP? (safety, income and price stabilisation rather than support, environment protection, rural development and power market reduction)

• Instruments to achieve these objectives: efficiency and equity criteria

• Transaction costs

• Degree of co-financing? (the distinction between pillar 1 and 2 has been useful to promote environmental and territorial objectives, but this distinction may now appear obsolete since it excessively constrain to follow a logic of transfer from the first to the second pillar)

• Governance (level, consistency between levels, structures of governance, networking) - cf. workshop 5